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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE SEPTEMBER 1991

THE PITCH FOR INCENTIVE PA

199 SAL SUR

A shipper/carrier meeting of the minds

At Pfizer, LTL's in a class by itself

How AT&T closes the logistics loop

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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

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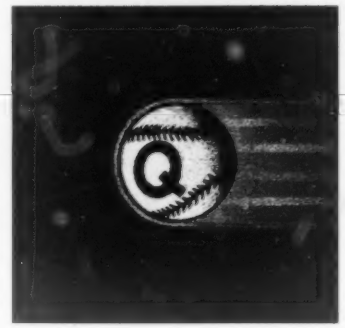
COVER STORY



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EDITORIAL STAFF

THOMAS A. FOSTER, ESQ.—Editorial Director (215) 964-4379

JAY GORDON—Executive Editor (215) 964-4385

E.J. MULLER—Senior Editor (West Coast) (415) 769-0884

SHARON STRUCKUS—Senior Associate Editor (215) 964-4387

EMILY HALL—Production Manager (215) 964-4384

EDITORIAL FAX #: 215-964-4512

CONTRIBUTING EDITORS

JOSEPH V. BARKS (215) 964-4385
ROBERT J. BOWMAN (415) 752-4884
DR. JOSEPH CAVINATO (814) 863-2054
KURT HOFFMAN (301) 762-8250
STANLEY HOFFMAN (203) 790-4195
RICHARD MALKIN (718) 343-7718
JAMES D. MARTIN (708) 256-8182
ROBERT SELWITZ (212) 877-3414
SY ZIVAN (212) 830-5357

FOREIGN CORRESPONDENTS

ANDREW TAUSZ—Canada
HANS VAN DER HOOP—Europe

EDITORIAL ADVISORY BOARD

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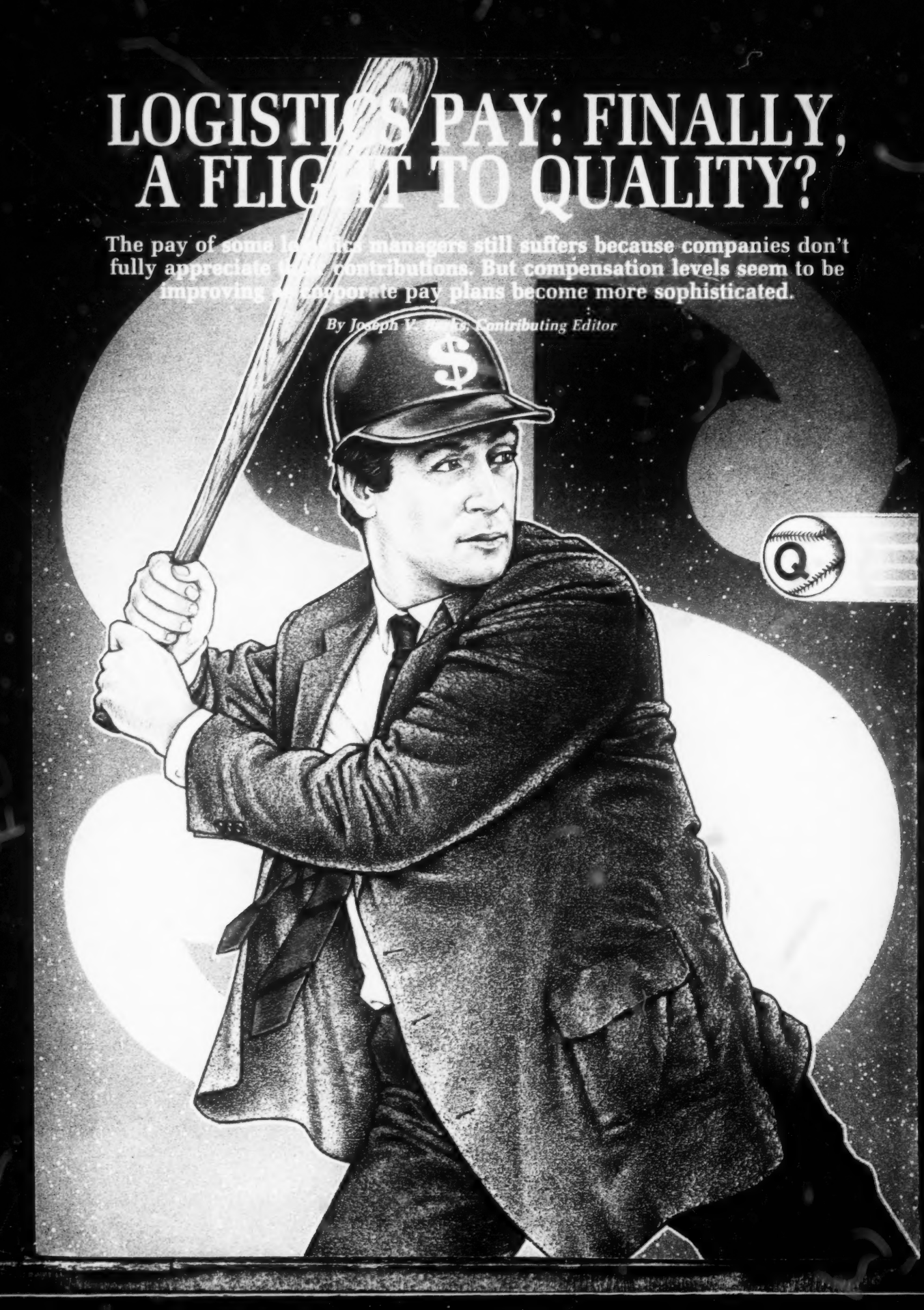
LOGISTICS PAY: FINALLY, A FLIGHT TO QUALITY?

The pay of some logistics managers still suffers because companies don't fully appreciate their contributions. But compensation levels seem to be improving as corporate pay plans become more sophisticated.

By Joseph V. [illegible], Contributing Editor



A veteran transportation director, who we'll call Fred, was asked to describe how pay increases and bonuses for himself and others in his department are determined.

"It's always something new, year after year," Fred chuckles. "Sometimes you can't help but wonder if we'll be able to do enough each time around. We don't get many points for carrying over (savings and accomplishments) from previous years.

"We've been lucky the past few years," Fred adds. "They added international responsibilities to our department, and that opened up a whole new world of opportunities. The first bill I saw for ship chartering was for $685,000—quite a bit larger than any freight bill I'd ever seen to that point. We were able to reduce it by $130,000, which contributed quite a bit to our overall performance of close to $3 million in savings for the year.

"New opportunities can also arise as the company grows," Fred notes. "But you do have to wonder sometimes how you'll be able to keep the savings level at the same threshold over the long haul."

We've known Fred a long time. He's a consummate pro—someone who takes fierce pride in his work and applies himself as intensely as anyone to the transportation/distribution field. It's probably OK, in Fred's case, that his company doesn't have, as he says, "incentive pay as such"; Fred would keep finding new ways to improve performance even if his yearly salary bump or bonus didn't depend on it.

We also know, however, that many other companies set pay levels for their transportation and distribution professionals in pretty much the same fashion as Fred's company—by asking, "How much have you saved for me lately?" And these companies often *don't* have guys like Fred working for them.

When business conditions or employee attitudes are less than ideal, one of two problems can occur: The opportunities for continued improvement fail to arise, or they do come up but are not exploited to full advantage. Either way, the chances are far greater that logistics managers will be improperly motivated or rewarded, and that their companies will not get a full return from their investment of logistics compensation dollars.

Do you have a "Pay for Performance" plan?
YES 53% NO 47%

PAY FOR PERFORMANCE MEASURES USED IN LOGISTICS

	YES	NO
Adherence to transportation budget	55%	45%
Inventory levels	61	39
Adherence to stated customer service requirements	64	36
Productivity of work force	69	31

Going for the Goals

Happily, though, the results of DISTRIBUTION's 1991 survey of logistics pay trends, drawn from the

continued

ABOUT THE MERCER COMPENSATION SURVEY

The 1991 Materials and Logistics Management Compensation Survey from which this report is drawn was conducted in the first quarter of 1991 by William M. Mercer, Inc., a leading compensation, benefits and human resources consulting firm. Survey data reflects salary levels as of January 1, 1991, and bonuses that were paid out for the most recently completed fiscal year at the time the survey was completed.

Participants in 1991 included 177 organizations reporting data on over 7,000 logistics job holders in 290 U.S. locations. These companies constitute a representative sample of small, medium-sized and large companies, as measured by gross sales and dollar volumes purchased. For example, 15% of the responding firms had gross sales of less than $10 million, 17% had sales of $10 million to $50 million, 14% had sales of $50 million to $100 million, 31% had sales of $100 million to $500 million, 9% had sales of $500 million to $1 billion, and 14 percent had sales of over $1 billion. Also, 33% of the respondents had purchase volumes of less than $10 million, 22% had volumes of $10 million to $50 million, 12% had volumes of $50 million to $100 million, 29% had volumes of $100 million to $1 billion, and 4% had purchase volumes over $1 billion.

The full survey, now in its 11th year, breaks out compensation data by industry, annual sales, type of operation, and geographic location. Information is also provided on salary administration practices and employee benefit programs offered by survey participants. Copies of the full survey report are available for $225 to participating organizations and $450 to non-participants. "Custom cuts" of the data (for selected industries, locations, etc.) are also available for $200.

For more survey information, write to William M. Mercer, Inc., National Survey Group, 1417 Lake Cook Rd., Deerfield, IL 60015, or call (800) 333-3070.

William M. Mercer, Inc., 11th Annual Materials and Logistics Management Compensation Survey, indicate that companies tying pay to a single criteria such as savings levels – or to nothing at all – may be increasingly in the minority.

This year for the first time, the Mercer survey included specific questions about how performance measures and other targets are used to determine logistics pay. As the table on p. 29 shows, over half (53 percent) of the 163 firms responding said a "pay for performance" plan exists for logistics positions.

TOP DISTRIBUTION EXECUTIVE

Top distribution position in a corporation with over $100 million in sales. Responsible for shipping/receiving, traffic, field warehousing, and customer order processing. Reports to the top materials management executive at the corporate level.

	10th Percentile	50th Percentile	90th Percentile
Salary	$60.0	$83.1	$128.8
Total (including bonus)	60.0	94.9	146.7
Perks	24.2%	7.7%	7.7%

TRANSPORTATION MANAGER

Responsible for movement of material from all production facilities in a corporation with over $100 million in sales. Supervises other traffic managers or specialists. Typically reports to the top distribution executive at the corporate level.

	10th Percentile	50th Percentile	90th Percentile
Salary	$42.0	$56.9	$85.0
Total (including bonus)	42.2	60.5	92.5
Perks	5.9%	1.5%	2.9%

UNIT TRANSPORTATION MANAGER

Responsible for movement of material from production facility, including shipments to domestic and international customers and to plants within the company. May supervise other traffic managers. Typically reports to the distribution manager.

	10th Percentile	50th Percentile	90th Percentile
Salary	$35.6	$44.7	$59.1
Total (including bonus)	36.0	45.9	59.1
Perks	0.0%	0.0%	0.0%

OUTBOUND OPERATIONS MANAGER

Responsible for shipping of final or in-process products as well as timely reporting of completed shipments. Handles tracking and claims, routing and carrier selection. Typically reports to the distribution manager.

	10th Percentile	50th Percentile	90th Percentile
Salary	$27.5	$35.4	$59.3
Total (including bonus)	27.5	35.6	59.3
Perks	0.0%	0.0%	0.0%

When such a plan does exist, a number of different measures are being used to gauge logistics performance: productivity of the work force (used in 69 percent of the plans); adherence to stated customer service requirements (64 percent); inventory levels (61 percent); and adherence to transportation budget (55 percent).

The Mercer survey also shows that a significant number of companies now even go beyond logistics-specific performance measures and are tying pay for logistics professionals into the effectiveness of "Total Quality Management" (TQM) programs that have been instituted companywide.

TQM at Target

One such company is fast-growing Target Stores, the Minneapolis-based discount chain. Don Heide, senior vice president-distribution, says installing TQM into the logistics function is now established as one of many objectives upon which his pay, as an officer of the company, is based. In fact, says Heide, a case can be made that TQM is now *the* goal from which all other performance measures stem. "(TQM) gets pretty specific and pretty pervasive if you do it right," he says. "Things that go with it, like action teams, statistical process control and continuous improvement, pretty much cover everything we do."

Heide himself has been on a bonus plan for six years. "The bonus is clearly tied to company performance," he reports. "The size of the bonus pool is dependent on company results. My own share of the pool, as well as my pay grade, is dependent on a performance rating that relates directly to how well we meet distribution objectives. These objectives can be numbers-oriented, such as hitting budget, safety or inventory targets. Or, they can involve things like on-time and on-budget construction of a major new DC; installing a new software system; implementing new personnel programs; or instituting other new distribution features.

continued

And these would all be established in addition to the objectives that are part of TQM."

About three years ago, Heide reports, Target put its general managers and directors in the logistics department on an incentive pay program. Now these managers also get a bonus based on a performance rating that is tied to the same criteria that determine Heide's pay. "It's a fixed bonus plan," Heide reports, "representing an opportunity for managers to earn an additional percentage of their base salary. Depending on their performance rating, they either get all or some of that (pre-determined) percentage."

Target hasn't yet pushed incentive pay plans lower into its logistics function, but Heide feels that day may not be too far off. "Within the next two to three years," he says, "it may go all the way to become a total group incentive, covering the entire department or an entire facility."

While some contend it's too difficult to establish specific goals and payouts for a function like logistics—particularly its non-line-related areas—Heide has yet to see a downside to the notion of incentive pay for logistics positions. To the contrary, he feels it makes everyone in the department focus more clearly on both the small *and* big pictures. "I guarantee you," he says, "that when we're making decisions in our operating committees, (the performance criteria) have a bearing. And I certainly know that everyone likes it when the bonus checks go out."

Zero-based Accounting

Throughout the logistics field, pay for performance and "pay for quality" appear to be becoming more entrenched. At Nabisco Brands, reports Vice President-Distribution Joseph Andraski, pay programs of this type have become "part of the culture." Andraski admits it may not appear easy at first to find appropriate measures for various logistics functions, but he's come to discover that logistics can be "fairly quantifiable," particularly as Nabisco has adopted a "zero-defects mentality." When the "quantity" you're shooting for is zero, he notes, it becomes much easier to determine when the target has been hit, or missed.

Hollister, Inc., an Illinois-based manufacturer of disposable health care products, is perhaps more typical of where the logistics field now stands in the pay-for-performance arena. Director of Distribution Peter Reisner says his department hasn't yet progressed to the point where a complete set of performance measurement standards have been established, beyond the usual calculations of the cost of distribution *vis a vis* sales, or the cost of transportation *vis a vis* shipping volume.

"It's more or less been internal to this point," says Reisner. "We're currently trying to sort it out so we can be more specific. We have a fairly new and intense program for quality performance that involves a switch to MRP, and as part of that we want to begin to quantify goals for acceptable service levels and world-class production techniques."

Hollister is now in its second consecutive year of tying compensation to what's been established as the top goal for the logistics department. "The goals change with our priorities from year to year," he notes. And while the company has tried to push a performance-based pay orientation as deep into the logistics organization as possible, Reisner admits it can be tougher at certain levels. "You al-

continued

TOP MATERIALS MANAGEMENT EXECUTIVE

Responsible for all materials management functions, including production planning, distribution and purchasing. Reports to corporate manufacturing, operations or other top level officer. Supervises over 100 employees through subordinates.

	10th Percentile	50th Percentile	90th Percentile
Salary	$84.2	$ 95.6	$149.8
Total (including bonus)	95.5	115.6	207.5
Perks	44.2%	11.8%	17.6%

MATERIALS MANAGEMENT EXECUTIVE

Top materials manager at the unit level. Responsible for both production and inventory planning and control, distribution, and purchasing. Reports to higher level manufacturing or operations management.

	10th Percentile	50th Percentile	90th Percentile
Salary	$42.6	$57.9	$84.0
Total (including bonus)	45.5	64.0	87.2
Perks	11.9%	7.1%	7.1%

MATERIALS HANDLING SUPERVISOR

Generally responsible for the physical movement of material within a manufacturing/production facility. Supervises intra-plant personnel including drivers, material handlers, etc.

	10th Percentile	50th Percentile	90th Percentile
Salary	$29.3	$35.7	$44.0
Total (including bonus)	29.3	35.7	44.7
Perks	0.0%	0.0%	0.0%

ways want to establish mutual goals, which means you want the employee to be actively involved with the first round of suggestions," he notes. "But it can be more difficult at the warehouse level, where people are perhaps not as capable of expressing measurable goals as would be a professional engineer."

The aggregate pay data collected by Mercer in the 1991 survey (which reflect salary levels as of January 1, 1991, and bonuses for the reporting firm's most recently completed fiscal year) suggest that all of this increased attention toward first quantifying logistics accomplishments, and then rewarding logistics professionals for those achievements, has resulted in a long-overdue elevation of pay levels in the field. While year-to-year survey comparisons must be approached carefully because of shifts in the survey base, overall it can be seen that levels are significantly higher than they were a year ago.

TOP PURCHASING EXECUTIVE

Purchasing position in a corporation with over $100 million in sales. Responsible for purchase of raw materials, component parts, equipment, services and supplies. Reports to the top materials management executive at the corporate level.

	10th Percentile	50th Percentile	90th Percentile
Salary	$49.7	$81.7	$121.9
Total (including bonus)	53.5	92.0	147.0
Perks	16.9%	6.8%	6.8%

PURCHASING MANAGER

Top purchasing position at the unit level. Responsible for purchasing of raw materials, component parts, equipment, services, and supplies. Reports to the materials management executive.

	10th Percentile	50th Percentile	90th Percentile
Salary	$42.3	$56.0	$70.3
Total (including bonus)	44.6	59.9	74.1
Perks	8.0%	0.0%	0.0%

PURCHASING AGENT

Responsible for purchase of goods/services used by manufacturing facilities in a corporation with over $100 million in sales. Approves/qualifies vendors; authorizes purchase orders. Reports to top purchasing executive at the corporate level.

	10th Percentile	50th Percentile	90th Percentile
Salary	$35.4	$49.6	$62.5
Total (including bonus)	35.4	50.5	65.8
Perks	0.0%	0.0%	0.0%

PURCHASING CONTRACT ADMINISTRATION MGR.

Responsible for review and administration of long-term purchase contracts in a corporation with over $100 million in sales. Supervises other purchasing contract administrators. Reports to the top purchasing executive at the corporate level.

	10th Percentile	50th Percentile	90th Percentile
Salary	$50.0	$66.1	$90.0
Total (including bonus)	50.8	75.6	102.0
Perks	0.0%	6.7%	6.7%

Sharing the Wealth

Bruce Spiegel, a principal in Mercer's Philadelphia office, notes that an analysis of five-year compound growth for senior management logistics positions shows an annualized increase in total compensation of 8 to 9 percent (see chart, p. 38). Spiegel feels this growth reflects corporate recognition of these executives as people who are "in a position to significantly impact the bottom line through production, distribution and purchasing decisions. In today's cost-conscious business environment," Siegel notes, "logistics executives' skills are seen as critical to profitability improvement."

Unfortunately, it does appear that the pay improvement in the field has been top-heavy—perhaps reflecting companies' difficulties in pushing performance measures, and thus proper recognition, into lower logistics levels. The same five-year analysis shows that pay for subordinate levels increased during the same period within a much smaller range of 3.5 to 5.1 percent. "Purchasing agents, buyers, material planners, schedulers and others at positions below the senior management level can also have a big affect on profitability," notes Spiegel. "But you wouldn't know it by their pay treatment over the last few years."

Still, the improvement in top executive pay has been enough to elevate overall pay increases to levels that now are on a par with general industry averages—which certainly wasn't the case a year ago. Where actual salary increases for logistics executives averaged 5.8 percent in 1990, the average for the industry as a whole was 5.7 percent. The average exempt lo-

continued

gistics increase of 5.4 percent matched the general industry average, while the nonexempt logistics average of 5.1 percent lagged general industry (5.3 percent) slightly.

One way lower-paid logistics positions appear to win out, however, is that when they do get bonuses, they tend to get bigger ones than their counterparts in other fields. As the bonus comparison chart below shows, average bonuses for logistics positions at the $25,000 level were nearly double those earned in general industry. That was the only pay level where logistics bonuses exceeded those of business as a whole, showing again that while the trend to variable pay in logistics may be accelerating, it still lags the pace set by other professional disciplines.

Higher Unit Audits

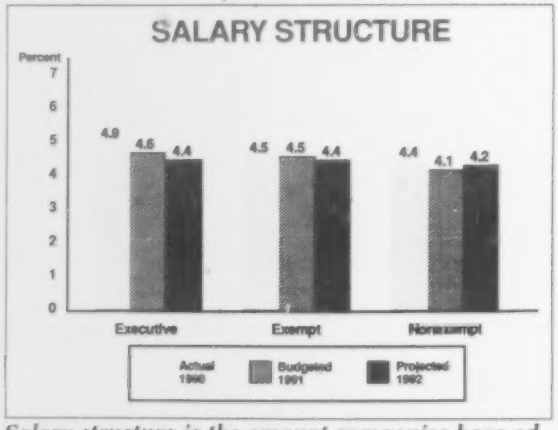
As for the individual positions for which salary, bonus and perquisite data are shown throughout this special report, Spiegel notes these general trends when comparing the 1991 figures with previous years' results (again reminding readers that the samples shown are not directly comparable, and also noting that some adjustments in titles and job descriptions were made in this year's survey, in response to industry feedback):

• An apparent shift in responsibility to division and subsidiary levels, as reflected by increased pay for unit heads. The role of top logistics executive appears to now be generally defined as one that is more strategically oriented, with less direct control over purchases of equipment or services. "There appears to be more of a 'holding company' mentality emerging in logistics," says Spiegel, "and with that, more autonomy is being given to units and subsidiaries."

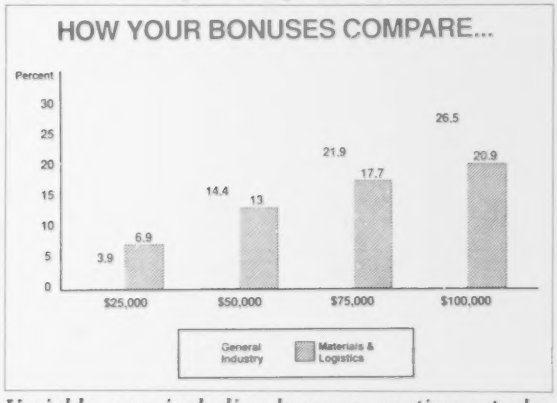
• Flat or even decreasing pay for jobs with highly restricted scope, such as "outbound operations manager." This would seem to indicate a trend toward rewarding positions that adopt more of a total logistics perspective.

• A significant increase in pay for distribution center managers (Editor's Note: a chart for this position is not included in this report). Again, this may reflect a renewed emphasis on decentralized logistics management and a broadening of unit-level responsibilities. ■

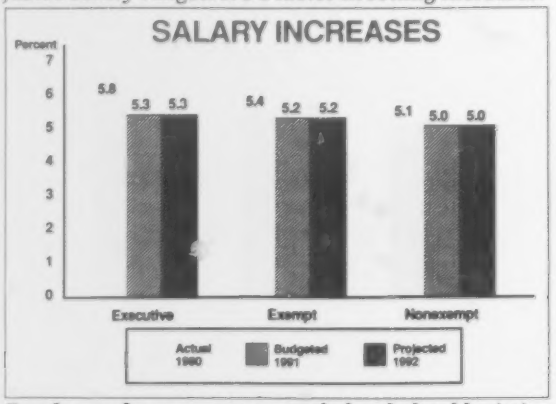
Top managers are rewarded for bottom line contributions, but recognition lags at lower levels.



Salary structure is the amount companies have adjusted salary ranges. It's a factor in setting increases.



Variable pay, including bonuses, continues to be lower in logistics than in other disciplines.



Pay for performance apparently has helped logistics pay increases approach industry averages.